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ITALY

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Real GDP 2/	1,170.7	1,204.8	1,225.9
Real GDP Growth (pct) 3/	1.6	2.9	1.7
GDP (at current prices) 3/	1,179.8	1,073.8	1,123.0
GDP by Sector:			
Agriculture	33.7	28.6	N/A
Manufacturing	247.9	225.8	N/A
Construction	51.3	47.2	N/A
Services	846.9	771.2	N/A
Government	202.6	181.1	N/A
Per Capita GDP (US$)	20,469	18,563	19,416
Labor Force (millions)	23.4	23.5	23.7
Unemployment Rate (pct)	11.4	10.6	9.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) 4/	6.8	4.4	4.3
Consumer Price Inflation	1.7	2.5	2.8
Exchange Rate			
(Lira/US$ annual average of market rate)			
1818	2102	2160	
Balance of Payments and Trade:			
Total Exports FOB 5/	245.4	237.0	103.0
Exports to United States 5/	21.9	24.6	10.1
Total Imports CIF 5/	220.5	235.7	102.5
Imports from United States 5/	10.7	12.5	5.5
Trade Balance 5/	14.9	1.3	0.5
Balance with United States 5/	11.2	12.1	5.8
External Public Debt	75.3	77.7	4.6
Fiscal Deficit/GDP	1.9	1.5	1.5
Current Account Surplus/GDP (pct)	0.7	-0.4	-0.6
Debt Service Payments/GDP (pct) 6/	6.8	6.2	6.4
Gold/Foreign Exchange Reserves	45.2	40.4	47.1

1/ 2000 estimates based on data available through June.
2/ 1995 prices; GDP at factor cost.
3/ Percentage changes calculated in local currency. Exchange rate changes account for discrepancy between rising GDP figures (calculated in local currency) and falling current price GDP (calculated in dollars).
4/ 1999 and 2000 data are the growth rate of M2 in the euro area through December 1999 and 2000. 2001 data is through June 2001.
5/ Merchandise trade. 2001 data through May.
6/ Represents total debt-servicing costs.

1. General Policy Framework

Italy has the world's sixth largest economy, and is a member of major multilateral economic organizations such as the Group of Seven (G-7) industrialized countries, the Organization for Economic Cooperation and Development, the World Trade Organization, the International Monetary Fund, and the European Union.

Italy is one of the 11 founding members of the European Economic and Monetary Union (EMU). Beginning in January 1999, EMU member countries adopted the euro as their currency and the new European Central Bank as their monetary authority. National currencies are being phased out and only euros will be used beginning on January 1, 2002. The lire will co-exist with the euro from January 1 to February 28, and can be used as an official currency for transaction. After February 28, 2002 and for a period of ten years, lire can be exchanged for euros only at the Bank of Italy. Public opinion polls consistently rank Italy as one of the most "pro-euro" countries in Europe.

Italy has a private sector characterized by a large number of small and medium-sized firms and a few multinational companies with well-known names such as Fiat, Benetton, and Pirelli. Economic dynamism is concentrated in northern Italy, resulting in an income divergence between north and south that remains one of Italy's most difficult and enduring economic and social problems.

The Italian government has traditionally played a dominant role in the economy through regulation and through ownership of large industrial and financial companies. Privatizations and regulatory reform since 1994 have reduced that presence significantly in some sectors. In other sectors, particularly in energy, the State still has a strong presence. The government retains a potentially blocking “golden share” in industrial companies privatized thus far. The government and the Bank of Italy continue to shape merger and acquisition activity involving Italian financial and non-financial firms considered “key” to the economy and/or employment, and business surveys continue to cite a heavy bureaucratic burden as one of the main impediments to investing or doing business in Italy.

For years, government spending has been high in comparison to EU standards, driven up by generous social welfare programs, inefficiency, and projects designed to achieve political objectives. The result has been large public sector deficits financed by debt. Beginning in the early 1990s, Italy started to address a number of macroeconomic problems in order to qualify for first round EMU membership. The public sector deficit fell from 1.9 percent of GDP in 1999 to 1.5 percent at end-2000, aided by higher than expected tax revenues. This year, lower than expected GDP growth and lower than expected tax revenues, particularly in capital gains, are expected to produce a deficit/GDP ratio well above the 0.8 percent target and as high as 1.2 percent. The level of public debt, second highest among the EMU countries as a share of GDP, has started to decline but remains over 100 percent of GDP. The Italian government plans to reduce the debt level gradually to the EMU target level of 60 percent of GDP in 2016.

Up to December 31, 1998, price stability was the primary objective of monetary policy; the Bank of Italy carried out a restrictive monetary policy in an effort to defeat Italy's long-term inflation problem. Now these powers have been transferred to the European Central Bank, with the Bank of Italy retaining banking supervision responsibilities. Consumer inflation accelerated from 1.7 percent in 1999 to 2.5 percent for 2000, fueled by higher oil prices, a weakening euro and worsening of terms of trade. This trend continued through the first seven months of 2001, producing an average inflation of 2.9 percent. Inflation is expected to slow in the last part of the 2001, producing an average annual inflation rate of about 2.8 percent. Producer prices also accelerated from minus 0.3 percent in 1999 to 6.0 percent in 2000, because of higher prices for petroleum and other raw materials and of the strengthening of the dollar versus the euro. Producer price increases decelerated to four percent in the first half of 2001 and are expected to decelerate further in the second half of the year.

2. Exchange Rate Policy

On January 1, 1999 Italy relinquished control over exchange rate policy to the European Central Bank. The Euro, now used for non-cash transactions, begins circulation in January 2002 in twelve countries of the EU, including Italy. Italy’s participation in the euro will simplify trade for those companies exporting to several EU countries.

3. Structural Policies

Italy has not implemented any structural policies over the last three years that directly impede U.S. exports. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a continued, heavy state role in the production sector. There has been some progress at addressing these structural issues. Privatization is reducing the government's role in the economy. The 1993 "Single Banking Law" removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives has injected further competition into the sector.

U.S. financial service firms are no longer subject to an incorporation requirement to operate in the Italian market, although they must receive permission to operate from the government's securities regulatory body.

U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors determined to be of national interest, or in cases which create antitrust concerns.

4. Debt Management Policy

Although the domestic public debt level is high, Italy has not had problems with external debt or balance of payments since the mid-1970s. Public debt is financed primarily through domestic capital markets, with securities ranging from three months to thirty years. Italy's official external debt is relatively low, constituting roughly 5.6 percent of total debt. Italy maintains relatively steady foreign debt targets, and uses issuance of foreign-denominated debt essentially as a source of diversification, rather than need.

5. Significant Barriers to U.S. Exports

In general, EU agreements and practices determine Italy's trade policies. These policies include preferential trade agreements with many countries.

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the United States and most other countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. This license is granted to Italian importers when they provide the requisite forms.

Services Barriers: Italy is one of the world's largest markets for all forms of telephony and the largest and fastest growing European market for mobile telephony. More than 70 percent of Italy’s population of 57 million use mobile phones. In recent years, the Italian government has undertaken a liberalization of this sector, including privatization of the former parastatal monopoly Telecom Italia (formerly STET); creation of an independent communications authority; and allowing both fixed-line and mobile competitors to challenge the former monopoly (which Olivetti acquired in a hostile takeover in 1999). Following the EU's January 1, 1998, deadline for full liberalization of its telecommunications sector, Italy issued more than 140 fixed-line licenses, including to new entrants, with U.S. participation. Omnitel Pronto Italia, which is partly U.S.-owned, began offering cellular service in December 1995.

Obtaining rights-of-way is one area where U.S. firms may have experienced difficulties. U.S. companies have raised concerns that current and former state parastatals (highways, gas, railways) hold almost all the best rights-of-way licenses. Under Italian code, state-owned entities are not obligated to concede rights-of-way to communications' licensees. In addition, the Government of Italy and the Communications Authority maintain that they do not have any authority over local law provisions and decisions by municipalities that give preferential treatment to the former state-owned companies. Embassy will continue to monitor this issue carefully and raise this issue with appropriate Italian government officials.

There has also been some recent concern regarding the continued presence of the government in the telecommunications market. In addition to maintaining a golden share in Telecom Italia, the Government of Italy has a controlling interest, through parastatal energy company ENEL, in WIND/Infostrada, the second largest national operator, as well as significant interest in Blu, another large national telecoms operator. In addition, the new center-right government is pursuing a plan to reduce responsibilities of the independent Communications Authority in favor of expanding the role of the Communications Ministry. Under plans of the former center-left government, the Ministry was slated to be abolished.

In August 1997, Italy established an independent regulatory authority for all communications, including telecommunications and broadcasting. Concerns remain regarding regulatory due process, transparency, and even-handedness in general. Nevertheless, the Italian market is much more open to services imports in this sector than it was prior to implementation of the EU telecommunications' directive.

In 1998, the Italian Parliament passed government-sponsored legislation including a provision to make Italy's national TV broadcast quota stricter than the EU's 1989 "Broadcast Without Frontiers" Directive. The Italian law exceeds the EU Directive by making 51 percent European content mandatory during prime time, and by excluding talk shows from the programming that may be counted towards fulfilling the quota. Also in 1998, the government issued a regulation requiring all multiplex movie theaters of more than 1300 seats to reserve 15 to 20 percent of their seats, distributed over no fewer than three screens, to screening EU films on a "stable" basis. In 1999, the government introduced "antitrust" legislation to limit concentration in ownership of movie theaters and in film distribution, including more lenient treatment for distributors that provide a majority of "made in EU" films to theaters.

Firms incorporated in EU countries may offer investment services in Italy without establishing a presence. U.S. and other firms that are from non-EU countries may operate based on authorization from CONSOB, the securities oversight body. CONSOB may deny such authorization to firms from countries that discriminate against Italian firms.

Foreign companies are increasingly active in the Italian insurance market, opening branches or buying shares in Italian firms. Government authorization is required to offer life and property insurance; this authorization is usually based on reciprocal treatment for Italian insurers. Foreign insurance firms must prove that they have been active in life and property insurance for not less than 10 years and must appoint a general agent domiciled in Italy.

Italy imposes some limits on foreign ownership in banks. According to the Banking Law, a foreign institution wanting to increase its stake in a bank to above five percent needs authorization from the Bank of Italy.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by government institutions. Regarding lawyers in particular, a recent Italian law could force foreign firms to reorganize the internal structures of their Italian firms.

Standards: As a member of the EU, Italy applies the product standards and certification approval process developed by the European Community. Italy is required by the Treaty of Rome to incorporate approved EU directives into its national laws. However, there has frequently been a long lag in implementing these directives at the national level, although Italy has been improving its performance in this regard. In addition, in some sectors such as pollution control, the uniformity in application of standards may vary according to region, further complicating the certification process. Italy has been slow in accepting test data from foreign sources, but is expected to adopt EU standards in this area.

Most standards, labeling requirements, testing and certification for food products have been harmonized within the European Union. However, where EU standards do not exist, Italy can set its own national requirements and some of these have been known to hamper imports of game meat, processed meat products, frozen foods, alcoholic beverages, and snack foods/confectionery products. Import regulations for products containing meat and/or blood products, particularly animal and pet food, have become more stringent in response to concerns over transmission of Bovine Spongiform Encephalopathy (BSE). U.S. exporters of "health" and/or organic foods, weight loss/diet foods, baby foods, and vitamins should work closely with an Italian importer, since Italy's labeling laws regarding health claims can be particularly stringent. In the case of food additives, coloring, and modified starches, Italy's laws are considered to be close to current U.S. laws, albeit sometimes more restrictive.

U.S. exporters should be aware that any food or agricultural product transshipped through Italian territory must meet Italian requirements, even if the product is transported in a sealed and bonded container and is not expected to enter Italian commerce.

Starting October 1, 2001, the EU, including Italy, requires that blood products, gelatin, tallow and mechanically removed meat such as that used in some pet foods, be subject to Commission regulation 1326/2001. This regulation requires that various animal products, even pet foods, not intended for human consumption, not contain specified risk materials (SRMs) and that these foods be certified to that effect.

In August 2000, Italy banned the commercialization of four biotech corn varieties that had been approved by the European Union after extensive testing. The ban appears to violate EU regulations.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of U.S. exports' entry into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Investment Barriers: While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits, and foreign investments often receive close scrutiny. These lengthy procedures can present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport and aircraft manufacturing.

Italian antitrust law gives the Antitrust Authority the right to review mergers and acquisitions over a certain threshold value. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" or if the home government of the foreign firm does not have a similar anti-trust law or applies discriminatory measures against Italian firms. A similar provision requires government approval for foreign entities' purchases of five or more percent of an Italian credit institution's equity.

Government Procurement: In Italy, fragmented, often nontransparent government procurement practices and previous problems with corruption have created obstacles to U.S. firms' participation in Italian government procurement. Italy has made some progress in making the laws and regulations on government procurement more transparent, by updating its government procurement code to implement EU directives. The pressure to reduce government expenditures while increasing efficiency is resulting in increased use of competitive procurement procedures and somewhat greater emphasis on best value, rather than automatic reliance on traditional suppliers.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the General Agreement on Tariffs and Trade (GATT) agreements on agriculture and subsidies, and as a WTO member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as a number of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small to medium size firms. Italy provides some direct assistance to industry and business firms, in accordance with EU rules on support to depressed areas, to improve their international competitiveness. This assistance includes export insurance through the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

The Italian wheat-processing sector (pasta) in the past received indirect subsidies to build plants and infrastructure. While these plants are still operating, there are no known programs operating at present similar to the initial subsidies.

7. Protection of U.S. Intellectual Property

Italy is a member of the World Intellectual Property Organization, and a party to the Berne and Universal Copyright Conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

In August 2000, the Italian Parliament enacted the long-awaited “anti-piracy” law, providing for higher criminal penalties for IPR violations. Italy has since been removed from the U.S. Trade Representative’s Special 301 IPR "Priority Watch List" to the “Watch List.” According to American film, music and software industry representatives, enforcement against piracy has been improving over recent years. With this new legislation, law enforcement agencies and magistrates are empowered with more effective tools to combat piracy and are, according to the industry, already obtaining very good results. In August 2001, the Government of Italy passed implementing regulations for the anti-piracy law. The regulations appear to generally satisfy U.S. industry, with some exceptions. The United States government will continue to closely monitor developments in this area.

8. *Worker Rights*

a. *The Right of Association:* The law provides for the right to establish trade unions, join unions, and carry out union activities in the workplace. The unions claim to represent between 35-40 percent of the work force. Trade unions are free of government controls and have no formal ties with political parties. The right to strike is embodied in the constitution and is frequently exercised. In April 2000, a new law changed provisions of a 1990 measure governing strikes affecting essential public services (e.g., transport, sanitation, and health). The new law defined minimum service to be maintained during a strike as 50 percent of normal, with staffing by at least one-third the normal work force. The law established compulsory cooling off periods and more severe sanctions for violations. Besides transport worker unions, the law also covers lawyers and self-employed taxi drivers. These changes enjoyed the backing of the three major national trade union confederations, which sought to avoid inconvenience to tourists and the traveling public alike during the Catholic Church’s Jubilee year.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right of workers to organize and bargain collectively, and these rights are respected in practice. By custom, although not by law, national collective bargaining agreements apply to all workers, regardless of union affiliation. Dismissals of workers must be justified in writing. If a judge deems the grounds spurious, he can order that a dismissed worker be reinstated or compensated. In firms employing more than 15 workers, the option to choose between reinstatement and compensation lies with the worker. In firms with fewer than 15 workers, this choice is the employer's.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, including that performed by children, and generally it does not occur. Some illegal immigrants and children were forced into prostitution. Trafficking of illegal immigrant women and children for prostitution and forced labor is also a problem.

d. *Status of Child Labor Practices and Minimum Age for Employment:* The law forbids the employment of children under age 15, with some limited exceptions, and requires that those between the ages 15-18 receive their education either in school for academic instruction or at a job site for vocational training. There also are specific restrictions on employment in hazardous or unhealthful occupations for men under age 18, and women under age 21. The enforcement of minimum wage laws is difficult in the extensive underground economy. Estimates of the number of child laborers differ, ranging from 30,000 to 350,000. The most probable figure may be in the range of 50,000. Most of these cases involve immigrants, but instances involving Italian children also have been reported. The footwear and textile industries have established a code of conduct that prohibits the use of child labor in their international as well as national activities, applicable to subcontractors as well. In 1999, a child labor clause was attached to the national labor contract in the health sector, whereby the parties committed themselves not to use surgical tools produced by child labor. The law forbids forced or bonded labor involving children. Italy ratified ILO convention 182 prohibiting the worst forms of child labor following completion of parliamentary action in May 2000.

e. *Acceptable Conditions of Work:* Minimum wages are not set by law, but rather by collective bargaining agreements on a sector by sector basis. These specify minimum standards to which individual employment contracts must conform. A 1997 law reduced the legal workweek from 48 to 40 hours. Most collective agreements provide for a 36 to 38 hour workweek. The average contractual workweek is 39 hours but is actually less for many industries. Overtime work may not exceed 2 hours per day or an average of 12 hours per week. Unless otherwise limited by a collective bargaining agreement, ceilings established in a 1998 law set maximum permissible overtime hours in industrial sector firms at no more than 80 per quarter and 250 annually. The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. For most practical purposes, European Union directives on health and safety also have been incorporated into the law. Labor inspectors are from the public health service or from the Ministry of Labor. Courts impose fines and sometimes prison terms for violation of health and safety laws. Workers have the right to remove themselves from dangerous work situations without jeopardizing their continued employment.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		14,498
Food & Kindred Products	934	
Chemicals & Allied Products	3,588	
Primary & Fabricated Metals	96	
Industrial Machinery and Equipment	1,167	
Electric & Electronic Equipment	1,346	
Transportation Equipment	989	
Other Manufacturing	6,376	
Wholesale Trade		2,637
Banking		270
Finance/Insurance/Real Estate		1,929
Services		2,236
Other Industries		(D)
TOTAL ALL INDUSTRIES		23,622

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.